

Pooled Funds Investment Policy

For The
Department of Finance

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**City of Wichita, Kansas
Pooled Funds Investment Policy**

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City of Wichita, Kansas,

Pooled Funds Investment Policy

I. Scope

In conjunction with Chapter 2.18 of the City Code, the City Manager is directed to arrange for the investment of funds not needed for current obligations. This policy is intended to establish principles and basic procedural guidelines for the City's investments and management of such funds.

The City of Wichita maintains a pooled funds investment strategy versus a fund investment strategy. The intent of the pooled investment strategy is to optimize revenue through the pursuit of effective cash management thereby providing basic liquidity while taking advantage of longer investment horizons.

This investment policy applies to all financial resources of the City of Wichita, other than funds of the pension trust held by the City's custodian, the cemetery trust, the group life insurance internal service fund, the special assessment advance payments agency fund, and such funds excluded by law, bond indenture or other Council-approved covenants which are covered in separate investment policies.

Pooled funds are accounted for by the City's Department of Finance, Controller's Office, as represented in the City of Wichita Comprehensive Annual Financial Report and include:

- General Fund
- Special Revenue Funds
- Debt Service Funds (unless prohibited by bond indentures)
- Capital Projects Funds
- Enterprise Funds
- Internal Service Funds
- Fiduciary Funds
- Any new Fund created, unless exempted by the City Council

The City Treasurer's Office maintains the accounting for investment transactions representing the total pooled funds portfolio.

II. Authority

The Director of Finance has management responsibility for the investment program. The Director shall establish written procedures for the operation of the investment program consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions.

No person may engage in an investment transaction for the City of Wichita except as provided under the terms of this policy and the procedures established by the Director.

The Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

The investment policy adopted by the City of Wichita shall apply uniformly to all officials, employees, departments, agencies, boards, commissions, representatives and authorized agents in the performance of their official duties and to the processing and management of all investment transactions of the City's pooled funds portfolio. All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transactions that might impair public confidence in the effectiveness of the government of the City of Wichita.

III. Objectives

It is the policy of the City that, giving due regard to the safety and risk of investment, all available funds shall be invested in conformance with legal and administrative guidelines and, to the maximum extent possible, at the highest rates obtainable at the time of investment. Effective cash management is recognized as essential to good fiscal management. An aggressive cash management and investment policy shall be pursued to take advantage of investment earnings as a viable and material revenue source to operating and capital funds.

Interest income is included as a revenue source in the City budget; however, the investment policy and program is not administered to meet specific budgetary requirements or goals. Interest is accrued to each fund based on each fund's average daily cash balance. Accrued interest is posted to each fund at the end of each month.

As noted in the following sections, safety and liquidity are given higher priority in the management of public funds. The City's pooled investment portfolio shall be designed and managed in a manner responsive to the public trust and consistent with state and local law.

The primary objectives, in priority order of the City's investment activities, shall be as follows:

Safety of Principal

Safety of principal is the foremost objective of the investment program. Investments undertaken by the City of Wichita shall be made in a manner that seeks to ensure preservation of capital in the overall portfolio. This includes mitigating credit and interest rate risk.

Credit Risk

The City will minimize credit risk, which is the risk of loss associated with the failure of a security issuer or broker, by:

- a. Limiting investments to the safest types of securities.

- b. Pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisers with which the City will do business.
- c. Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

Interest Rate Risk

The City of Wichita will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

- a. Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
- b. Investing funds primarily in shorter-term securities.

Liquidity

The City of Wichita pooled investment portfolio will remain sufficiently liquid to meet all operating requirements that might be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands.

Return on Investment

The City of Wichita pooled investment portfolio shall be designed with the objective of attaining a reasonable rate of return throughout budgetary and economic cycles, taking into account investment risk constraints and the cash flow characteristics of the portfolio. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

Expanded Investment Authority

It is the practice of the City of Wichita to retain Expanded Investment Authority under K.S.A. 12-1677b. Expanded investment authority authorizes the City to extend maturities from two years to four years and allows the City to further diversify the portfolio by investing in government agency securities. The authorized investments and maturity structure defined in this policy are contingent on the City's ability to retain expanded investment powers.

IV. Standards

Prudent Investment Management

The standard of prudence to be used by investment officials shall be that of a "prudent person" as contemplated by K.S.A. 17-5004(1) and shall be applied in the context of managing an overall portfolio. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The investment officers, when adhering to written procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided any deviations are reported to management in a timely manner and any necessary action is taken to control adverse consequences to the City.

Ethics and Conflict of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Manager and City Attorney any material financial interests in financial institutions that conduct business with the City of Wichita, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the City, particularly with regard to the time of purchases and sales.

V. Internal Controls

In the development of the system of internal controls, consideration shall be given to documentation of strategies and transactions, techniques for avoiding collusion, separation of functions, delegation of authority and limitations of action, custodial safekeeping, and avoidance of bearer-form securities.

VI. Pooled Investment Committee

The City of Wichita shall establish a pooled investment committee to review and provide oversight on the administration of the investment policy. The investment committee shall meet not less than quarterly and shall consist of the following members:

- Director of Finance
- Assistant Director of Finance
- City Treasurer
- Controller
- Cash Manager
- Other appointees as designated by the Director of Finance

The investment committee shall review investment policies and procedures for compliance and adopt revisions to the investment operating guidelines.

Minutes of the committee meetings shall be available for review by both the internal and external auditors.

VII. *Management Fees*

To support the costs of managing the City's investment pool, the Director of Finance is authorized, upon approval by the City Manager, to assess a management fee of not more than 1% to the funds. This management fee shall be deducted from interest earnings before allocation to the funds. The management fee shall be established to cover all costs involved in managing the investment operations. The current pooled investment management fee is established in the Investment Operating Guidelines.

VIII. *Authorized Investments*

The investments authorized under this policy shall be in conformance with K.S.A. 12-1675, K.S.A. 12-1677b and any other applicable statutes or ordinances and amendments thereto. The following list represents the types of investments that the City will consider and shall be authorized to invest in.

- United States Treasury and Agency Securities: The City may invest in obligations of the United States Government or any agency thereof insured as to principal and interest by the United States or any agency thereof and obligations and securities of United States-sponsored enterprises that under federal law may be accepted as security for public funds, except that none of the City's funds may be invested in government agency issued mortgage backed securities.
- Repurchase Agreements (Repo): The City may invest in repurchase agreements with a bank or a primary government securities dealer that reports to the Market Reports Division of the Federal Reserve Bank of New York for direct obligations of, or obligations that are insured as to principal and interest by, the United States government or any agency thereof and obligations and securities of United States government-sponsored enterprises that under federal law may be accepted as security for public funds. Such repurchase agreements may be made only with banks and dealers that have entered into fully executed master repurchase agreements on file with the City. The market value of the securities underlying any repurchase agreement shall be maintained with a market value of at least 102% of the amount of the repurchase agreement. If the market value of the securities falls below 102% of the amount of the repurchase agreement, additional securities shall be required to attain full security.
- Collateralized Public Deposits (Certificates of Deposit): The City may invest in instruments issued by financial institutions stating specified sums have been deposited for specified periods and at specified rates of interest. The certificates of deposit are required to be backed by acceptable collateral securities as dictated by state statute.

Interest will be calculated on a 365-day year/actual day month basis, or another method approved by the Director of Finance or designee in writing.

- Temporary Notes or No-Fund Warrants: The City may invest in temporary notes or no-fund warrants issued by the City of Wichita.
- State Municipal Investment Pool: The City may invest in a pool of funds that is managed by and under the authority of the Kansas State Treasurer in accordance with K.S.A. 12-1675 et seq., and amendments thereto.
- Multiple Municipal Client Investment Pools: The City may invest with trust departments of commercial banks with offices located in Sedgwick County, or with trust companies which have contracted to provide trust services under the provisions of K.S.A. 9-2107, and amendments thereto, which have offices located in Wichita. These accounts will be secured as provided for under K.S.A. 9-1402, and amendments thereto. Authorized investments in these pools will be subject to the same terms, conditions and limitations as are applicable to the State Municipal Investment Pool.

IX. Maximum Maturities

Investment maturities shall be scheduled in consideration with projected cash flow needs, taking into account large routine expenditures, as well as considering sizeable blocks of anticipated revenue. Maximum maturities for investment of funds under this policy shall be in conformance with K.S.A. 12-1675, K.S.A. 12-1677b, and any other applicable statutes or ordinances and amendments thereto. Guidelines for maximum maturities are established as follows:

Type of Investment	Maximum Maturity
U.S. Treasury and Agency Securities	4 years
Repurchase Agreements	4 years
Collateralized Public Deposits (CD)	4 years
Temporary Notes/No-Fund Warrants	1 year
State Municipal Investment Pool	2 years
Multiple Municipal Client Pools	2 years

X. Diversification

It is the policy of the City of Wichita to diversify its investment portfolio so as to protect City monies from material losses due to issuer defaults, market pricing changes, technical complications leading to temporary lack of liquidity, or other risks resulting from an over-concentration of assets in a specific maturity, a specific issuer, or a specific class of

securities.

XI. External Investment Pools

Prior to investing in any externally managed pool including the State Municipal Investment Pool or Multiple Municipal Client Investment Pools, the City shall conduct a thorough investigation of the pool's operations. The following information regarding the management of the pool shall be maintained on file in the City Treasurer's Office and updated annually:

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations, interest distribution methods, and treatment of losses.
- A description of how the securities are safeguarded (including the settlement processes), and how often securities are priced and the program is audited.
- A description of who may invest in the program, how often, and minimum and maximum amounts for deposit and withdrawals.
- A schedule for receiving statements and portfolio listings.
- A review of the pools usage of reserves and retained earnings.
- A fee schedule and when and how is it assessed.
- Determination of whether the pool is eligible for deposits of bond proceeds.

XII. Derivatives Policy

Derivatives, defined as securities whose value relies on or is derived from an underlying security or index, are not authorized investments for the pooled funds portfolio. Exceptions to this policy statement are the following securities:

- U.S. Treasury Strips
- U.S. Treasury or Agency callable securities
- U.S. Treasury or Agency floating rate securities

These securities will meet all other policies and guidelines. Leveraging of the portfolio is strictly prohibited.

XIII. Performance Evaluation and Reporting

The City of Wichita's pooled investment portfolio shall be designed with the objective of regularly exceeding the average return on the three month U.S. Treasury Bill. This index is considered the benchmark for riskless investment transactions and therefore is a minimum standard for the portfolio rate of return.

Performance Evaluation Methodology

The value of the pooled investment portfolio's holding shall be calculated and reported in three ways: market value, par value and amortized cost.

- The earnings of the pooled funds portfolio shall be calculated and reported based on generally accepted accounting principles for pooled funds investments of local government units.
- The yield on the pooled funds portfolio shall be calculated and reported as the yield to maturity. This calculation takes into account the face value (par), price paid, coupon rate and time to maturity.

Investment Reporting and Performance Analysis

Investment performance is continually monitored and evaluated by the Cash Manager and the City Treasurer using investment strategies developed by the Pooled Investment Committee and this policy, in conjunction with the Pooled Funds Operating Guidelines. The Cash Manager generates investment performance statistics and activity reports. The Director of Finance will provide summary information to the City Manager and the City Council as part of the quarterly financial report.

The Cash Manager and City Treasurer shall prepare monthly, quarterly, and annual reports summarizing and supporting the investment activity for the prior period. Additional comparative performance reviews will be conducted, as the Wichita Pooled Investment Committee deems necessary. The Pooled Investment Committee shall be responsible for developing specific reporting guidelines detailed in the Investment Operating Guidelines Policy.

The pooled investment portfolio will be reviewed annually by the external auditors for compliance with these policies and generally accepted accounting principles.

XIV. Collateralization

Initial Placement Moneys to be deposited in financial institutions shall not be released until the financial institution's board has executed the required Collateral and Custodial Agreements.

Deposits in depository institutions doing business with the City of Wichita shall be fully collateralized at all times. Acceptable collateral for City deposits is listed below as provided in K.S.A. 9-1402.

Collateral shall be priced on a market value basis. The aggregate market value of the collateral must be sufficient to equal the outstanding amount of City funds deposited plus accrued interest thereon, less federal deposit insurance coverage. The depository bank shall ensure that deposits and accrued interest are always sufficiently collateralized. Sufficiency of collateral values will be validated by the City Treasurer's Office.

If a depository bank fails to meet requirements established by the City, the depository bank shall be required to close the account and return to the City all principal and accrued interest without penalty.

Collateral Requirements

Financial Institutions may pledge or assign for the City's benefit sufficient securities, the market value of which is at least 100% of the total deposits. Peak period collateral agreements permitted under K.S.A. 9-1403 and mortgages as contemplated by K.S.A. 9-1402 are not to be accepted by the City of Wichita.

The allowable securities acceptable to the City are limited to:

- a. Direct obligations of, or obligations insured by, the U.S. or any agency thereof.
- b. Obligations and securities of U.S. sponsored corporations, which under federal law, may be accepted as security for public funds.
- c. Bonds of any Kansas municipality, which has been refunded and is secured by U.S. obligations.
- d. Bonds of the State of Kansas.
- e. General obligation bonds of any Kansas municipality.
- f. Revenue bonds of any Kansas municipality if they meet approval by the state bank (or savings and loan) commissioner.
- g. General obligation temporary notes of any Kansas municipality.
- h. No-fund warrants of any Kansas municipality.
- i. Certain Kansas municipality sponsored revenue bonds rated Aa or higher by Moody's Investors Service.
- j. Commercial paper that does not exceed 270 days to maturity and which has received one of the two highest commercial paper credit ratings by a nationally recognized investment rating firm.
- k. Corporate Surety Bond
The surety bonds must be approved by the Kansas Commissioner of Insurance and be in the standard format acceptable to the City of Wichita
 - The issuer of the surety bond shall be admitted and licensed to issue surety bonds in Kansas.
 - The City of Wichita shall be designated as the insured public depositor.
 - The issuer and the depository bank are required to notify the City of Wichita by certified or registered mail no fewer than 90 days prior to non-renewal and no fewer than 45 days prior to a bond's cancellation.
 - The claims-paying ability of the issuer must be rated and remain rated in the highest rating category of one of the nationally recognized rating agencies (A+ and A++ from A.M. Best's or AAA from Standard and Poor's). Within 48 hours of discovery of a downgrade by a rating agency or notice of financial regulatory

action by any jurisdiction in which the issuer is licensed, notice must be given to the City Treasurer by the issuer in the form of certified or registered mail.

I. Personal Bond

The institution may provide a personal bond in an amount, which is double the amount on deposit.

XV. Competitive Selection of Investment Instruments

Each security transaction, other than directly issued instruments, securities in syndicate or specially bid or offered securities, shall be executed through a competitive process involving solicitation of bids or offers from qualified institutions.

When purchasing a security, the offer that provides the highest anticipated current and future rate of return and that meets the investment objectives of the portfolio shall be accepted.

When selling a security, the bid that generates the highest sales price shall be accepted.

XVI. Staff Qualifications

To establish and implement cash management practices for the City, the City Manager shall establish the position of City Treasurer and Cash Manager within the Department of Finance. The City Manager, Director of Finance and City Treasurer shall adopt and implement procedures and practices for the efficient cash management of all funds held by or belonging to the City of Wichita.

The position of City Treasurer is appointed by the City Manager upon recommendation of the Director of Finance and is responsible for planning, directing and managing the investment programs of the City as outlined by the City of Wichita Pooled Funds Investment Policy and Operating Guidelines. The City Treasurer shall have at least five years experience in investment management, managing banking relationships and/or cash management. Such appointee shall meet the criteria defined by the Personnel Classification Manual included in the exhibits of the Investment Operating Guidelines.

XVII. Brokers and Dealers

Investment transactions shall only be conducted with qualified institutions, i.e. depository banks, the Federal Reserve Bank in Kansas City, Missouri, primary government securities dealers, or broker-dealers engaged in the business of selling government securities that are registered in compliance with Section 15 or 15C of the Securities Exchange Act of 1934 and registered pursuant to K.S.A. 17-1254, as amended.

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements.
- Proof of National Association of Securities Dealers (NASD) certification.
- Proof of State Registration.
- Completed broker/dealer questionnaire.
- Business resume of individual assigned to the City's account.
- Certification of having read and understood and agreeing to comply with the City of Wichita's investment policy.

A list will be maintained of approved security broker/dealers selected by credit worthiness and experience. This may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the City Treasurer.

XVIII. Safekeeping and Custody

All security transactions entered into by the City of Wichita shall be conducted on a delivery versus payment basis. Securities will be held by either the Federal Reserve Bank or a third-party custodian designated by the City of Wichita and evidenced by safekeeping receipts.

XIX. Separate Provisions of Policy and Conflicts with Kansas Law

The above policies shall remain in full force and effect until revoked by the Wichita City Council. If after adoption of this policy, there is any conflict of this policy with Kansas laws and/or statutes, current law shall dictate.